

## Message Text

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ORIGIN EB-07

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APPROVED BY EB/IFD/OMA:GPBALABANIS

TREASURY:NGORDON

D-RDUEMLING

SS:MR. MOFFAT

EUR/NE:NACHILLES

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FM SECSTATE WASHDC

TO AMEMBASSY LONDON PRIORITY

INFO AMEMBASSY PARIS PRIORITY

C O N F I D E N T I A L STATE 134838

E.O. 11652: GDS

TAGS: EFIN

SUBJECT- U.S.-U.K. TAX TREATY NEGOTIATIONS

REF: LONDON 8066

1. BRITISH AMBASSADOR RAMSBOTHAM CAME IN TO SEE DEPUTY SECRETARY INGERSOLL ON JUNE 3 TO DISCUSS CURRENT U.S.-U.K. TAX TREATY NEGOTIATIONS. U.S. TREASURY ASSISTANT SECRETARY FOR TAX POLICY FREDERIC W. HICKMAN AND MR. NATHAN GORDON, DEPUTY TO THE ASSISTANT SECRETARY (INTERNATIONAL TAX POLICY), WERE ALSO PRESENT. FOLLOWING MEMORANDUM OF CONVERSATION RECORDED THE MEETING.

2. "AMBASSADOR RAMSBOTHAM EXPRESSED CONCERN ABOUT THE POLITICAL IMPLICATIONS" OF U.S. TAX NEGOTIATOR'S INDICATION LAST WEEK TO SERVE NOTICE BEFORE JUNE 30 OF THE TERMINATION EFFECTIVE JANUARY 1, 1976 OF THE U.S.-U.K. CONVENTION AND PROTOCOL FOR THE AVOIDANCE OF DOUBLE TAXATION ON INCOME, UNLESS A DISPUTE OVER U.K. TAX DISCRIMINATION.

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INATION AGAINST DIVIDENDS OF U.S. DIRECT INVESTORS IN THE U.K. IS SATISFACTORILY RESOLVED. THE AMBASSADOR OBJECTED TO HMG'S MINISTERS HAVING TO FACE THIS SHORT

DEADLINE. HE NOTED (A) THAT THE "BALL HAD BEEN IN THE U.S. COURT" FROM JANUARY 1974 (DATE OF THE LAST LETTER FROM CHANCELLOR BARBER TO SECRETARY SCHULTZ REJECTING U.S. PROPOSALS) UNTIL NEGOTIATIONS HAD BEGUN IN LONDON IN

APRIL OF THIS YEAR; (B) THE BRITISH HAS UNDERSTOOD IN APRIL THAT THE U.S. WAS ONLY THREATENING TO TERMINATE THE TREATY'S DIVIDEND PROVISION, NOT "DENOUNCE" THE ENTIRE TREATY; AND (C) THE BRITISH WOULD HAVE DIFFICULTY IN AGREEING TO A REVISED TAX TREATY WITH THE U.S. WHICH GAVE THEM LESS FAVORABLE TERMS THAN A SIMILAR U.S. TREATY WITH FRANCE. HE SAID NOTIFICATION OF TERMINATION WOULD NOT ONLY TRIGGER ADVERSE BUSINESS REACTION, BUT ALSO JEOPARDIZE CULTURAL EVENTS SUCH AS THE EXCHANGE OF TEACHERS DURING THE BICENTENNIAL YEAR. (THE TREATY PROVIDES SPECIAL TAX TREATMENT FOR SUCH EXCHANGES.)

3. MSSRS. HICKMAN AND GORDON EXPLAINED THAT DELAY IN GETTING NEGOTIATIONS GOING HAD BEEN DUE TO CONSIDERATIONS ON BOTH THE U.K. AND U.S. SIDES. THE U.S. NEGOTIATORS IN APRIL HAD INDICATED THE POSSIBILITY OF HAVING TO SERVE NOTICE BY JUNE 30 TO TERMINATE THE ENTIRE TREATY, BUT AT THAT TIME IT WAS ONLY MENTIONED AS ONE OPTION. SINCE THEN, IT WAS REALIZED THAT TO TERMINATE ONLY PART OF THE TREATY WAS NOT FEASIBLE. ON MAY 28-29, THE U.S. INDICATED A WILLINGNESS TO MAKE THE FORMAL NOTIFICATION "PRIVATELY" SO THAT IT WOULD NOT STIR UP ADVERSE BUSINESS REACTION, AND WITH THE UNDERSTANDING THAT IT WOULD NOT BE IMPLEMENTED IF THE DIVIDEND PROBLEM WERE SOLVED BEFORE THE END OF THE YEAR. THE U.S. NEGOTIATORS ALSO OFFERED A COMPROMISE SOLUTION ON DIVIDENDS

WHICH THEY HOPED THE U.K. WOULD ACCEPT. SINCE THE TERMS OF THE COMPROMISE WERE DIFFERENT FROM (AND MORE FAVORABLE THAN) SIMILAR PROVISIONS IN THE U.S.-FRENCH TREATY, THE U.S. FELT THAT BRITISH SHOULD NOT OBJECT. MOREOVER, THE U.S. INDICATED ITS INTENTION TO MAKE PUBLIC ITS NEW POSITION AND AGREE TO MODIFY EXISTING  
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TREATIES (WITH FRENCH AND OTHERS) WHICH INVOLVE THE SAME ISSUE.

4. THE BRITISH AMBASSADOR REITERATED THAT THE U.K. TAX AUTHORITIES HAD NOT UNDERSTOOD IN APRIL THAT THE U.S. INTENDED TO "DENOUNCE" THE ENTIRE TREATY. HE TOO HOPED

THE TAX EXPERTS WOULD BE ABLE TO REACH A SATISFACTORY COMPROMISE. STILL, HE DID NOT THINK THE U.K. NEED CONSIDER THIS MATTER UNDER THE THREAT OF A DEADLINE. THE THREAT REDUCED PROSPECTS FOR A FAVORABLE OUT-

COME. THE DEPUTY SECRETARY NOTED THAT WE WOULD CONSIDER  
THE MATTER ON THIS BASIS." KISSINGER

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